Arçelik A.Ş. Second Quarter 2025 Financial Results

Conference Call

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Conductors:

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Mrs. Delal Alver, Capital Market Compliance Senior Lead

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly your Chorus Call operator. Welcome and thank you for joining the Arçelik conference call and Live Webcast to present and discuss the Second Quarter 2025 Financial Results.

At this time, I would like to turn the conference over to Mr. Barış Alparslan, Chief Financial Officer, Mrs. Mine Şule Yazgan, Finance & ERM Executive Director, Mrs. Delal Alver, Capital Market Compliance Senior Lead and Mr. Sezer Ercan, Investor Relations Senior Lead

Mr. Alparslan you may now proceed.

ALPARSLAN B: Good morning and good afternoon, ladies, and gentlemen. Welcome to our Second Quarter 2025 Financial Results Webcast. This presentation contains the company's financial information prepared according to TFRS by the application of IS-29 inflation accounting provisions.

Here are the highlights of the Second Quarter. We generated TRY121.4 billion revenues with a gross margin of 28.4% in the Second Quarter, reflecting an 11.5% decline in sales year-on-year in real terms, mostly due to weak international demand and performance in Europe.

In Türkiye, domestic demand was steady whereas we have seen a nominal growth but a real decline due to relatively unfavorable product mix and pricing. International demand remained weak except in Africa and Middle East region and Pakistan market. Demand for MDA6 improved in the

Second Quarter where we managed to gain market share despite the challenging environment.

Our OPEX-to-sales ratio remained at 27% in the Second Quarter. Lower sales eased the impact of the savings in operating expenses as part of our restructuring efforts after Europe and MENA transactions. However, OPEX's figure itself reflects an 11.2% decrease compared to the same period of last year.

We recorded a significant recovery in EBITDA margin, roughly 1.0 on year-on-year and 0.6 points quarterly. Improving gross margin due to decrease in raw material costs, favorable Euro-dollar parity and footprint optimization efforts in production side were the major enablers of the recovery. Our rolling net working capital over sales ratio is 20.9%, remaining at the year-end level.

Improvement is expected to be achieved by year-end considering the seasonality of the business. Our leverage is 5.86 times as of the First Half due to growing debt resulting from Turkish Lira depreciation, seasonality embedded in net working capital needs and cash outflows regarding restructuring efforts.

Please note that EBITDA is weaker on a last 12 months rolling basis compared to previous quarters since this is the first period fully covering post-transaction figures for four quarters. We've provided the breakdown of net monetary position for the First Half in detail in our financial report.

According to the breakdown of net monetary position, adjusting for the monetary gains and losses, our adjusted EBITDA margin would have been 1.1 points higher in the

Second Quarter, implying a 7% EBITDA margin excluding inflation accounting impact. With this adjustment for the MGL, leverage would have been 4.5 times.

In Q2, our consolidated revenues declined by 11.5% year-on-year in real terms due to unfavorable price and product mix in Türkiye, weak international demand and relatively poor performance in Europe. Our gross profit margin for the Second Quarter was 28.4%, lower raw material cost, favorable Eurodollar parity and restructuring efforts supported this improvement.

Pricing pressure and intensified competition remained as the main headwinds. Higher gross profitability and lower opex in nominal terms in line with ongoing restructuring efforts helped to achieve a roughly 1-point higher adjusted EBITDA margin of 5.9% in Q2.

In the Second Quarter, figures in Euro terms reflect a decline of 4.5% year-on-year. Domestic sales increased by 2.1% in Euro terms, backed by a slight volume increase despite the negative price-product mix impact. However, real figures for Turkish Lira reflect 5.4% decrease in domestic sales year-on-year. This is simply because the growth in CPI for the period was substantially greater than the change in the FX rate.

In the same period, international sales revenue declined substantially by 7.5% in Euro terms, mostly due to a decrease in sales volume. As the challenging pricing environment in international markets remain unchanged, price-product mix has a negative impact as well as a fixed impact.

Figures for Turkish Lira show a 14.4% decline in international sales revenue in real terms. On the right-hand side, you can see our regional sales breakdown. Türkiye's share in total revenues increased to 34% in the Second Quarter, with a 2-percentage-points increase.

Europe constitutes 46% of consolidated revenues in the Second Quarter versus 49% in the same period of last year due to the underperformance in the region. Western Europe's share in total revenues decreased by 2 points to 32%, whereas CIS and Eastern Europe markets slightly decreased to 14% similarly.

Revenues generated in the APAC region remained the same, corresponding to 12% of total revenues, whereas the share of Africa and Middle East regions increased over 1.5 points in the same period and exceeded 8% of total revenues.

In Türkiye, MDA6 demand was under pressure in April and May.

Despite the 4% decline in sales volume in the MDA6 market in the period, we managed to keep our sales volume flat thanks to a substantial overperformance of Arçelik.

In the AC segment, retail data reflects 49% volume growth in the market, reflecting a slight underperformance with 45% growth in retail volume, having said that AC wholesale growth was limited due to increased inventory in the First Quarter.

Our retail TV sales volume increased by 20% compared to the same period of last year versus 21% sales volume growth in the market. Please note that the market data for AC and TV reflects retail sales, however wholesales to the dealers have the lion's share in consolidated revenues.

Despite the strong growth in retail sales in the AC and TV segments, product mix and lower pricing with the sales promotions in the MDA segment have led to a real decline in sales over 5% in Türkiye in the Second Quarter.

The consumer demand recovery slowed down in Western Europe in the Second Quarter. Volume growth in the market was 1.4% in the first five months of the year, while growth in Euro terms was limited in the same period.

In key markets such as UK, Italy, Spain, Belgium and Netherlands, market growth in sales volume was sustained, whereas slowdown continued in France and Germany, whilst figures pointed out to a decline in Austria as well.

Having 32% share in total sales revenue in Western Europe, Beko preserved the market leadership despite underperformance and declining sales volume, resulting in market share loss in the period. Meanwhile, in key markets in Eastern Europe, demand growth remained solid.

Year-to-date sales volume growth until the end of May in Romania and Ukraine was 4% and 7% respectively. Having 14% of share in total sales revenue in Eastern Europe, Beko has managed to preserve its market leadership despite the underperformance in the period.

Overall, 46% of consolidated revenues was generated in Europe with a decline of almost 12% year-on-year in Euro terms in the Second Quarter. When we deep dive in the growth in the market, we see that low-end product group, which constitutes almost one-third of the total market units, has the lion's share in the growth, where Chinese players are particularly strong.

To recover the market share losses to the maximum extent, a significant number of actions have been taken. Beko Europe is going through a big transition in terms of brand strategy and model launch. Over 2,000 SKUs will be launched with lower costs as part of the synergies due to factory relocations.

These lower-cost SKUs, new product introductions and repositioning of key brands are expected to increase competitiveness in the region versus Chinese players. The initial feedback we've seen from key players are very positive regarding the brand strategy being implemented and the products launch, and the number of listings are increasing as the new product introductions are taking place in the market. We are expecting the positive impacts of these actions to be relatively visible starting in the next quarter.

The revenues generated in Africa and the Middle East region constitute 8% of consolidated sales in the Second Quarter. Sales revenue in the region grew by 18%, mainly due to solid growth both in African and Middle Eastern markets. In Africa, defined sales volume growth was 25%, resulting in 13% growth in Euro terms.

Demand in South Africa was robust, while export markets reflected a modest growth compared to the same quarter last year. In the Middle East, Arçelik-Hitachi JV performed well and achieved 11% growth in dollar terms in the same period.

As one of the key markets in the region, Egypt's MDA market started to show recovery signals after a period with market instability and currency fluctuations. Beko Egypt sales growth exceeded 20% in dollar terms, while MDA volume growth was over 80% in the Second Quarter.

On the other hand, with 12% stake in consolidated revenues, the fluctuation in demand was visible in the APAC region due to ongoing challenges in home appliances and the influx from Chinese brands resulting in a more intensified competition and lower prices.

Sales revenue in the region slightly decreased by 2% in Euro terms in the Second Quarter. Substantial growth in Pakistan, Taiwan, and Hong Kong limited the decline led by the poor demand in key markets such as Bangladesh, Thailand, Japan, and China.

Dawlance performed very well in Pakistan, while sales growth was roughly 23% both in volumes and Euro terms in the Second Quarter. In Bangladesh, Singer’s net sales declined almost 9% in Euro terms due to the depreciation of local currency.

Sales volume in MDA and TV reflected substantial growth, unlike in SDA and AC segments. Singer succeeded to gain market share by outperforming the market.

Due to weaker demand, the slowdown in global growth and ample capacities, raw material prices continued to support the margins in the Second Quarter in line with the First Quarter.

On the metal side, market prices were significantly lower in the Second Quarter compared to the same quarter of last year. Due to China's increasing exports in the market, slightly lower prices are expected in the next quarters.

On the plastic side, market prices were substantially lower in Q2 compared to the last year. Prices are expected to decline further in Q3, but a slight increase is expected for the last quarter and yet to remain below last year's average at the end of the year.

With that, I will pass on to Mine for the summary financials.

YAZGAN M: Thank you, Barış Bey. Good morning and good afternoon. Here is the summary of our Second Quarter 2025 financial results as per inflation accounting, both in yearly and quarterly comparison.

Please note that this is the first comparable quarter after the consolidation of Whirlpool Heritage entities. Our consolidated revenues were TRY121.4 billion in the Second Quarter, reflecting 11.5% real decline year-on-year, albeit 5% increase quarterly. Despite a slight deterioration quarterly, gross profit was improved by 73 basis points in the Second Quarter year-on-year.

On an annual basis, our operating profit improved substantially due to the lower gross margin despite less supportive OPEX. Operating margin improved by 61 basis points in the Second Quarter in line with the 49 basis points improvements on a quarterly basis.

Net financial expenses have slightly increased by 3% year-on-year due to larger financial debt and the higher interest rates in Türkiye EBITDA within the Second Quarter. We booked a net monetary position of TRY3.4 billion in the Second Quarter, implying a 25% decrease quarterly on the back of increasing inflation rates.

Consequently, we posted an approximately negative TRY2.3 billion profit before tax, a TRY3 billion net loss before minority in the Second Quarter, corresponding to minus 2.4% net margin for the period. Finally, with a margin of 5.9%, we recorded an adjusted EBITDA of TRY7.1 billion in the Second Quarter, with a substantial improvement both year-on-year and quarterly.

We exclude transaction-related one-off expenses amounting TRY70 million due to the adjustment in the Second Quarter. The corresponding amount for the same Quarter last year was TRY465 million. With the adjustment for MGL attributable to the income and expense line items comprising EBITDA, our EBITDA margin is calculated as 7% in the Second Quarter.

Please note that other income and expenses, profit before tax and net income accounts are presented including the purchase price allocation gain recorded at the end of 2024 for comparative purposes as per IFRS 3 standards.

MGL figures are also recalculated due to the reclassification of net monetary gains arising from the indexing of shares of foreign subsidiaries by the parent company. You may see the recalculated figures on the table for a comparable basis.

As of June end, with an increase of TRY43.5 billion in net debt and weaker rolling EBITDA for the last 12 months post-Europe and MENA transactions, our leverage is at 5.86x. However, with the adjustment for MGL attributable to the income and expense line items comprising EBITDA, we calculate 4.5x leverage. We utilize early collection tools in Q2 as well.

The corresponding amount at the year-end was roughly EUR510 million including factoring. In the Second Quarter, the relevant figure is around EUR520 million. As previously communicated, we anticipate the intrinsic improvements on the leverage side as the better operational performance starts to support EBITDA through the end of the year.

You may find the details regarding our debt currency breakdown and effective interest rates of our loan and bond portfolio on the figure at right-hand side, with a total borrowing amount of TRY205.1 billion and an average duration of 1.4 years.

Excluding our notional cash flow, the average duration is over 1.5 years. Our average effective Turkish Lira, euro and dollar funding rates including loans and bonds are 41.1%, 4.95% and 8.4%, respectively. On the bottom part left-hand side, you may see our cash currency breakdown with a total amount of TRY60.1 billion as of June end.

With well-diversified cash holdings among currencies, 32% of our total cash is in EUR, 11% in USD and 34% in Turkish Lira. Euro denominated borrowings constitute 47% of our total borrowings, while dollar and Turkish Lira denominated borrowings correspond to 16% and 26%, respectively, with a total financial debt amount of TRY201.1 billion Lira.

On the debt maturity profile, our long-term borrowings correspond to 46% of our total borrowings as of period end. When we exclude our notional cash flow utilization, long-term loans correspond to 50% of total borrowings. However, with the help of the upcoming EUR100 million-loan from IFC, with a 5-year maturity and 2-year average duration, maturity will be extended in the next quarter.

On the upper left corner, you may find our adjusted EBITDA margin bridge. Larger growth margins and increased depreciation impact after transactions are the main drivers of a substantial recovery with 1-point improvements in the margin.

On the upper right corner, you may see our net working capital-to-sales ratio.

As of June end, the ratio was 20.9% in line with the year-end figure on a 12-month rolling basis. Further improvements will be achieved in the next quarter, given with the seasonality of the inventory cycle accelerated collections in the second half.

On the lower left corner, you can see our capex-to-sales ratio, 3% as of First Half, which implies a significant decrease year-on-year because of completed major investments and the tight policy on capital expenditures.

Finally, at the lower right corner, you may see our free cash flow figures. Weak cash from operations, majorly the increase in trade receivables, has caused a negative free cash flow of around TRY23.8 billion in the First Half of the year. Please note that the cash outflows for restructuring efforts were around TRY3.3 billion in the period.

So I'll give the floor to Barış Bey to walk us through our guidance. Thank you.

ALPARSLAN B: Thank you, Mine Hanım. So here you may see our previously shared 2025 guidance based on our forecast and expectations for the year. We have not updated our guidance at this point, but we are closely monitoring the recent macro environment both in Türkiye and globally.

A major policy change in Türkiye, further global uncertainties, or continuation of the under performance in Europe could cause a change in our base case assumptions in the next period. We are keeping our 2025 guidance of flattish domestic sales in real terms, 15% growth in international revenues in Euro terms.

Having 5.6% EBITDA margin in the First Half in line with our budgeted figures, on top of market expectations for the rest of the year, easing in raw material costs, positive impact of euro-dollar parity, diminishing dilutive impact of inflation accounting on EBITDA margin, and synergies to further kick in in the second half, we keep our 6.5% EBITDA margin guidance at this point.

We also keep our guidance for our net working capital over sales ratio around 20% with further improvement and EUR300 million of capex for the year 2025.

As we have disclosed in the previous quarters, we estimate savings of approximately EUR140 million by optimization of office positions, roughly 2,000 roles to be affected across our global operations within 3 years' time. So far, we have completed almost two-third of the plant role eliminations.

As part of ongoing restructuring efforts, here you may also find the recent updates on footprint optimization in production facilities. As stated earlier, we closed our factory in UK at the end of last year. Within the Second Quarter, production has been terminated in three factories in Poland in line with our footprint optimization plan.

As the remaining step of the process, production will be terminated in one factory in Italy at 2025 year-end. Reindustrialization and rightsizing will be continued in Italian operations next year.

With that, we can proceed to the Q&A session. Thank you.

OPERATOR: The first question is from the line of Dhaloomal, Ali with Bank of America. Please go ahead.

DHALOOMAL, A: Thank you, Barış and Mine for the call. I have two questions. The first one is just in regards of your outlook for the second half. You expect some improvement, and I'm just wondering if you see any kind of early sign of improvement in June and July versus what we see in this Second Quarter result.

I understand that there is a lot of seasonality, and usually September to November is a big period for you, but can you just give us a sense of if there has been any sign of improvement in the core market, particularly Türkiye and Europe?

And then my second question is more about the debt and leverage. I mean, can you confirm that now you are in breach of your maintenance covenant and that you have really just six months to address? I understand it's at the 3.8 times level. And maybe can you give us a bit more color about how you aim to get there?

Will it be just driven by the natural improvements that you expect in the second half, or are you still considering potentially some asset disposals or some one-offs that we should think about? Thank you.

ALPARSLAN B: Thank you. I'll start with the first question of market and outlook and with Türkiye. So, in Türkiye, high interest rates, limitations for monthly instalments, and diminishing expendable household income were the main headwinds for the First Half.

And given the recent policy rate cut and expectations from CBRT throughout the year in the continuation of those rate cuts, we remain on our positive expectations for the second half backed by the relative lower base in the second half of last year.

And as far as your question in terms of early signals is concerned, the Türkiye MDA6 market data for June already reflects a significant improvement on a monthly basis, so the expectation is promising.

I tried to explain during the narrative earlier, but as far as Europe is concerned, and when we deep dive into growth in the market, and I'll be repetitive to some extent, but we see that the low-end product group, which constitutes almost one-third, is, as you also know, mainly impacted by either the trade brands or the Chinese players.

There has been some recovery in the market, especially in particular countries. Beko and similar price index competitors have not been able to enjoy the recovery in that segment, given the intensified competition and pricing challenges. Having said that, the main source of the value creation from the Europe and MENA transactions, as you well know, is coming from cross-sourcing and factory relocations.

And Yate is already completed at the First Quarter, and it's a relatively small part of the synergies. Polish factories are the main source this year in terms of full closure and relocation of the production, as we call cross-sourcing. This has been completed in April and May. And as you know, first the products become inventory, and they are being sold, which comes with a lag.

And on the product side, to recover the market share losses to the maximum extent, a significant number of actions have been taken and discussed with the distributors, and this is, as I tried to explain, it pertains to the brand strategy execution and new models. This is a marketing business. In any case, you change with new SKUs, etcetera, vis-à-vis the distributors.

And there will be, it's a major change. I mean, for the ones who know the industry, over 2,000 SKUs will be launched with lower cost, and in which we see significant improvement on gross margins as they are being produced in Türkiye factories right now. This lower cost SKUs and repositioning of the key brands, of Whirlpool in particular, are expected to increase the competitiveness in the region vis-à-vis trade brands and Chinese players.

As I tried to explain in the past as well, we have a clear continuum of brands, and the impact will be definitely seen over the second half of the year. And the initial feedback, as I mentioned, is quite positive regarding the brand strategy, as we can see from the listings.

They would call this as new product introductions, NPIs, and we expect the positive impacts to come on stream as we deliver the third and especially the fourth quarter. So to be specific, of the months of September, October, and November, which are also the high seasons in Europe.

So as far as the leverage is concerned, and this will probably constitute a question from the majority of the parties, we are in alignment with our financial institutions in terms of the calculation of our adjusted EBITDA leverage multiple. So that's why the number that we're providing here as an adjusted basis is 4.5 times as of June, is the number that will be subject to covenant testing.

And as you know, and as you also pointed out, we have a six-month period, except a small part of borrowings. And please know that not all the covenant testing is being done every Half Year. So we have a large chunk and a half of the total borrowings, which are subject to covenant testing. The testing will be done at year end.

So just to cite the numbers, among EUR1 billion of borrowings, which will be subject to covenant testing, half of it will be done at year end. So it's not that we are --

entire leverage number is subject to covenant testing. So, it's just a small chunk. I just want to provide that information because the questions come up naturally all the time. And that's pretty much it. If you don't have any other questions on these two subjects.

DHALOOMAL, A: And then just on the asset disposals, is it something that you're considering?

ALPARSLAN B: Of course, we are constantly reviewing our strategic imperatives, be it asset, be it brand, be it non-core assets, etcetera. And if the strategy allows and if it's valid, we'll always take it into consideration as we always do.

DHALOOMAL, A: Thank you.

OPERATOR: The next question is from the line of Kilickiran, Hanzade with JPMorgan. Please go ahead.

KILICKIRAN H: Thank you very much. Actually, my question was asked, but I just want to make a follow up because I couldn't really understand the European part. And how much I mean, is it possible to clarify this? I mean, how much volume did you lose already in Western Europe versus last year? So I try to understand the market share goals here.

And you said that you are able to cover this volume weakness in the Third Quarter with the product launches. But in the last quarter, we asked a similar question. You said that Whirlpool brand is not planning to enter the entry segment or this type of thing. So how are you going to cover this volume loss in the Third Quarter? I mean, what type of SKUs you are going to launch?

ALPARSLAN B: Thank you. In Europe, the market share loss is around 1.5, 2 points diverging, obviously, from product to product. And as far as your question is concerned about the cross-sourcing initiatives and the timing of it, as I said, the closure of the factories, which are the main sources of Europe brand strategy and synergies, have already completed.

We've introduced the product to Türkiye factories that are coming out of Poland. Dryers are completed. Having said that, in cooling and cooking, there is some lack. But in terms of brand strategy, where we provide the four main brands of Whirlpool, Hotpoint, Indesit, and Beko, it has not changed.

So Whirlpool still remains as the premium brand, followed by Hotpoint on a regional basis, in particular in the UK, followed by Beko, which is the quality mass, value-add mass, as we call it. And then the entry brand is Indesit.

Having said that, in some regions, Indesit is also considered as a relatively premium, at least as Beko-level product. But the brand strategy has not changed. The execution, in terms of product groups, has come with a certain lag across about one or two months, especially in cooking and cooling products.

But the main strategy and source of strategy has remained intact. But as you know, and as we've discussed with you before as well, the synergies at the gross profit level are being kicked in, but at the same time, the headwind around pricing continues. But the combined impact of the euro-dollar parity and the net impact of pricing versus gross margin synergies, as you also saw, we've observed an increase in gross margin already.

So, we see the increase in gross margin as you follow through quarters. And due to the reasons, I mentioned, especially on new product introductions, etcetera, the completion of that product, which will come on stream on a cumulative basis, we expect the promising third and fourth quarter. And I also mentioned these months, especially September, October, and November, because these are the crossover months as we proceed through Q3 and Q4.

So as you know, there's a summer month, which is August. And again, there will be a relative slowdown across the year. But these three months, and as a crossover from Q3 and Q4, we expect all these plans to be completed as we progress through the year end.

KILICKIRAN H: Actually, I have no concern about the margin delivery. I mean, it's very obvious that you are successful in that one. But I'm trying to understand the potential threat from Chinese players, because as you already know, the Chinese players are more stronger in the entry level. But your brand strategy doesn't target the entry level, because Beko has been already produced in Türkiye. So, I don't know what will change here in the entry segment to fight against the Chinese players.

ALPARSLAN B: You're right. The entry segment, we know how to play there. But the real impact will come in the upper segment as we are also trying to migrate Beko to a higher level, as we have been doing over the last decade.

And especially Whirlpool brands, which are being already produced in Türkiye plant, are the main source of our brand strategy as we speak. So, we will try to shake off or withstand or shy away from the entry level, as you also rightly point out. But as you know, Beko historically has been pretty strong in some markets, especially in Germany and Italy, etcetera, and in the UK as a fighter brand.

We are aiming to keep it. We are continuing to lower the cost material improvement projects, etcetera, but also target especially the likes of Electrolux and Hisense in the upper segment with Whirlpool and Hotpoint brands on a regional basis. So that's the new part of the strategy, as we've communicated earlier as well.

KILICKIRAN H: All right. So, then you are planning to cut the cost to be more affordable in the entry segment and in the upper segment or mid-to-upper segment, saying more market share again because of this production move back to Türkiye, cost-cutting strategy, right? I mean, that's how you going to collect.

ALPARSLAN B: Absolutely. That's a fair summary of the overall brand strategy.

KILICKIRAN H: All right. Thank you very much. And about this leverage issue, I mean, you said that you may consider some asset disposals, and we know that you have some real estate assets in Türkiye. I think you moved to production plans previously. Is there any estimated market value of these real estate assets?

ALPARSLAN B: Given they are confidential figures, we're not able to share, but we have a valuable portfolio of non-core real estate assets. Depending on the utilization of these and the way of utilization, we might consider the monetization of such. But honestly speaking, with the operational performance, we expect and forecast to remain in line with our covenants on the back of adjusted leverage multiples.

These are like sweeteners in terms of non-core assets. The reason of us mentioning that is to tell you that on an LTV basis, we have that balance sheet to be able to monetize flexibly, if need be. That's the main essence, not that we have a concrete and short-term or immediate disposal opportunity here.

KILICKIRAN H: All right. Okay. Clear. Thank you very much.

ALPARSLAN B: Welcome.

OPERATOR: The next question is from the line of Ivanov, Dmitry with Jefferies. Please go ahead.

IVANOV D: Hello. Can you hear me?

ALPARSLAN B: Yes, very well.

IVANOV D: Again, thank you very much for the presentation. Quite helpful. Maybe on working capital and free cash flows, if you could maybe provide more color, because you already mentioned that you saw some increase in receivables in the Second Quarter of this year.

And if you look at the previous year, it was a seasonal accumulation of receivables. Because I think last year, you saw the release of working capital when it comes to receivables. Maybe you can unpack this receivables accumulation number a bit more just for us to understand what went wrong, basically.

Why we saw such a huge outflow when it comes to receivables. This is my first question. If you could unpack who are the main debtors when it comes to receivables and what is the nature of this receivable accumulation?

My second sub-question here is, do you use any receivables financing instruments to accelerate the payments of these receivables? Do you use any factoring facilities, etcetera, just to get money quicker? And what is the outstanding amount of these facilities? I think they should be off-balance sheet facilities. So, this is my second question.

And the last question would be on free cash flows. Basically, again, the First Half saw a material reduction in free cash flows. How should we look at the free cash flows in the second half of the year? Should we expect improvements on the free cash flow profiles given the release of working capital?

So, should we expect a free cash flow neutral position by the end of this year, given the projections you see yourself now? So, these are my questions. Thank you.

ALPARSLAN B: Thank you very much. I'll answer one by one. On the receivable side, the main culprit or the main reason is Türkiye operations. And due to a hot summer season expectation, the inventory accumulation of the dealers was significantly pulled forward.

And as we also provided you with the volumes of the AC segment, there's been significant increase in the First Quarter, especially while we are being prepared to the air conditioning season, so on the back of the production. As you know, we have a dedicated JV with LG to produce ACs on the ground.

And the second reason is a cooling season, which is in particular, like, it is customary in terms of seasonality. The increase in networking capital receivables in Türkiye, some of it will be sticky in the sense that it is tied to a certain level of revenues.

Having said that, a significant portion, and I must say around 60% of the increase that is due to the air conditioning, etcetera, will come back in the second half of the year. This, we have already started to observe on a monthly basis. The collections have, during the -- like up until May, monthly collections have ranged around, let's say, TRY10 billion in Türkiye. Right now, it's like almost 40% up on a monthly basis.

And to be honest, hot weather and humid temperature, it just helps out a lot in terms of collections. And one of the main reasons behind our expectations of like a positive performance in receivables, in terms of change in receivables, is coming from air conditioning or Türkiye collections. And when you look at the monthly seasonality of collections historically in Türkiye, the second half comprises a large chunk of total collections in a given year. So that's one thing.

Secondly, as we also provided in the past, also after the migration of Whirlpool EMEA, our early discounts and receivable factoring limits have substantially increased as compared to the past levels. And then, we also managed to increase our factoring and early discount limits vis-à-vis our relationship banks.

Some of receivable factoring and early collection discounts, just to cite a few numbers here in Q2, is around EUR500 million, which has been around EUR400 million ordinarily, EUR300 million to EUR400 million depending on the capacity of receivables. But it has been slightly above ordinary levels. We can always increase the utilization to speed up the collections for improved liquidity at the end of the year, given -- the way it works is as follows.

Following the high seasons, like air conditioning or cooling in the First Half, or the high season in Europe over the third and fourth quarter, the year-end limits are always higher given larger receivable volume. So that's why this is a significant means of cash generation for us as we progress throughout the year-end.

And the third question, which combines all of it related to our expectations around free cash flow. I summarized the receivable part. On the inventory, due to the same reasons of seasonality, the second half is always an inventory clearing, especially on the slow-paced inventory as well, inventory clearing period.

On the payable side, the impact of the closures, factory closures have impacted to some extent the payables. And as you know, one of the sources of the synergies on the procurement side has been the trade-off between lowering the unit procurement cost versus arranging the payment terms vis-à-vis our distributors, because after the change of control of local EMEA transaction, we've migrated most of the suppliers to our own supplier base.

But with the advancement of the supply chain finance limits, etcetera, as I've communicated frequently on the past, the payables -- the impact of the payable side on the financing side have been largely mitigated. Capex remains extremely disciplined, will definitely be in line with our guidance and there is a -- we are extremely stringent on the capex side. And the second half, with that -- in a nutshell, the second half of the year is expected to be very different than the First Half on the back of, especially in the change in networking capital side.

IVANOV D: So, in terms of the, like, apologies for, we just want to understand, like, more specifically. So basically, this net leverage number of 4.5 times, right, which excludes…

ALPARSLAN B: Yes.

IVANOV D: Monetary gains, should we expect this number to go down? Like, should we expect Q2 to be a peak of net leverage? So by September, the net leverage is expected to go down and second half free cash flow profile should be much better, and we should expect, like, free cash flow neutral position for the whole year or not?

ALPARSLAN B: Yes. That's a fair summary. At the end of the year, I can point you to the end of the year, because in Q3 we also have August. Having said that, starting from September, we expect to leverage, and you can also extrapolate or benchmark the numbers of past year as well, where, like, with including Whirlpool EMEA, and you will see that there is always a remarkable change or decline in leverage as we progress to the year-end.

So that's why I always and usually point to the year-end in terms of leverage metrics, and because this will also cover the entire use of LTM EBITDA. So the leverage metric does not comprise only denominator of net debt, it also comprises the denominator of EBITDA, which includes a lot of non-monetary adjustments here and there. It's not like tracking the FX impact or the sudden changes in networking capital as net debt.

So, to be honest, the accumulation of EBITDA versus net debt in that industry is changing across the year. So, one can even take the average of net debt over a given year to smooth out the impact, as with you on the networking capital side, because we provide you, the reason of us providing you with the rolling networking capital numbers is exactly the same reason.

Because the period end numbers of net debt incorporate all the sudden hiccups here and there, be it on a positive or negative direction, whereas EBITDA always comes with a lag, as evidenced by the cash conversion cycle.

And hence, I must point you to the year-end, where we definitely expect to remain below our covenant metrics on an adjusted basis.

IVANOV D: And quick clarification, you mentioned like EUR500 million factoring facility, right, basically, that you can utilize to...

ALPARSLAN B: Yes. It's even higher. The limit – the facility limit we have is higher, but more or less we utilize in Q2 that number, including the early collection discounts vis-à-vis European distributors, not only receivable factoring. So our networking capital is quite fungible, and in the periods of growth, it seems like, I mean, given that you factor in the change in the underlying network capital item, it seems like we're in cash burn. Having said that, it's an investment that will always come back, apart from the change in level of revenues. So that's why I tried to summarize in detail the movement in various parts of networking capital throughout the year.

IVANOV D: Thank you very much. That's all from me. Thank you.

ALPARSLAN B: Welcome.

OPERATOR: The next question is from the line of Fedorov, Egor with ING Bank.

FEDOROV E: Hi. Hi, everyone. Thank you for presentation. Just a couple of questions from me. With regard to your maybe issuance plan -- plans, do you have any thoughts to come back to the capital markets? And second, it's – yeah, it's linked with, like, your liquidity position.

Like, I see cash around $1.5 billion and short-term debt, all in total, around $3.3 billion in terms, if you recalculate it. And actually, how it works, this balance in terms of your cash position and short-term debt, how -- what's your actually policy with regard to the short-term debt management?

ALPARSLAN B: Welcome. In a nutshell, just to summarize all the questions, we are pretty much covered in terms of funding plan and/or need for additional large-scale issuance for the remainder of the year. You will hear a few, like, one large, relatively large DFI transaction soon.

Having said that, on the back of a large issuance in Turkish Lira domestic bond market, as we've completed recently, which has covered, it was intentional to cover the collection period just to support the Turkish Lira funding side, we do not have a major need.

Our, as you know, Eurobond redemption is on May 2026, and we have started the preparations across the Board vis-à-vis our relationship banks, the banks which participate in our syndicate, also looking at the capital market solutions, etcetera, in advance.

So, given these things take time, we have started to look at the redemption mode for the redemption of the upcoming Eurobond, but we have significantly more time right now, so we're not concerned in terms of liquidity in that respect, and we do not have a major redemption throughout the remainder of this year.

In terms of short-term debt, we have lots of means, as I tried to explain, to convert or monetize our net working capital on a short-term basis. The short-term debt that we have, be it on a domestic Turkish Lira bond or domestic lending market in Turkish Lira, is related to mainly Türkiye operations.

And the way, as you also know, our relationship with the dealers' works is it's like a consumer finance business where we always monetize around the net working capital level, looking at striking a balance between sell-in and sell-out vis-à-vis main products and taking into account the seasonality. So, we do not expect any problem. It's not a fixed capital commitment per se, as you think, in terms of short-term debt. It's very fungible.

As you know, we also have a cash flow arrangement. Our European subsidiaries have bilateral lines. There's a significant overdraft limit, which is almost EUR750 million in total. I mentioned the receivable factoring and early collection limit in total.

And so, combining all of these, when we look at on -- and existing cash as well, and as we progress to a collection period of the year, it's quite promising. We're quite relaxed in terms of our liquidity position for the next six months and 12 months.

FEDOROV E: All right. And maybe a follow-up question with regard to the receivables. Do you have any kind of concentration risks with these receivables or any specific major side of these receivables?

ALPARSLAN B: A significant portion, almost, I might say, all of it is either covered via insurance and/or the other collateral measures. We have both in Türkiye and in Europe, we have very clear group policies in credit receivables -- receivables credit risk, apart from the management or monitoring of our distributors very closely.

We haven't experienced any material bad debt, etcetera, so far even. And to be honest, when you look at the roller coaster that the world and Türkiye has been in over the last decade, this has been tested for a very long time and we have zero concern in terms of receivables credit risk.

FEDOROV E: All right.

ALPARSLAN B: so -- yes.

OPERATOR: There are no further audio questions at this time. We'll now move on to our written questions from our webcast participants. The next question is from Can Özgüzel with Franklin Templeton, and I quote, hi, can you give broad range of EBITDA margins in June? Is it higher than quarter average? What is euro/USD sensitivity at EBITDA level? Do you expect interest expense to go down into half? Do you expect interest expense rate to go down in Türkiye and Europe given rate cut cycle?

ALPARSLAN B: Thank you. As I mentioned before, our EBITDA margin is in line with our budget figures so far. And on top of the reasons that I mentioned, market expectations, etcetera, easing raw material costs, increasing positive impact of euro/dollar parity, etcetera, we expect to remain in line on the back of the synergies as well with our guidance here.

The important thing on the EBITDA margin is that, as you know, the parity has started to increase towards the end of second half. And it always comes on a cumulative basis and with a lag. And on a monthly basis, we really started to see the impact of the parity as it pertains to our Turkish factories in particular, as we move on a month-on-month basis going forward.

So the real parity increase has been over the last couple of months, especially in June, which will start to feed the financials throughout the second half of the year. Because the inventory -- there is a cycle in the inventory, you do not see the impact of the parity immediately. These give us comfort in terms of EBITDA margin.

Yes, we expect the interest expense to come down. Of course, we have a duration of our existing loans, so the impact will not be one-by-one. But it's apparent and obvious that in the -- on the back of lowering interest rates, as we cycle our, especially Turkish Lira debt going forward over the next Quarter and the Half Year, the interest expense will definitely go down. That's a fact. And ECB's rate cut is also helping out, as you also rightly pointed out.

On that front, and to be honest, when we negotiate with our lenders on the spread side, we also take into account all these improvements from a credit metric perspective. And of course, for our floating rate lending arrangements, the decline in Euribor is helping a lot on the accrual of interest expenses. And that's imminent, that we see immediately in the P&L is the positive impact.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Mr. Alparslan for any closing comments.

ALPARSLAN B: Thank you very much. I appreciate it and hope to see you in our next webcast. Thank you.